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C O N F I D E N T I A L SECTION 01 OF 03 IRAN RPO DUBAI 000030

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SUBJECT: IRANIAN ECONOMIC POLICY: AN EASY TARGET FOR CRITICS

REF: RPO DUBAI 0011

RPO DUBAI 00000030 001.2 OF 003

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REASON: 1.4 (d)

1.(C) Summary. While IRPO contacts have long criticized Iranian economic policy in private conversations, top figures in Iran appear increasingly vocal in public condemnations of President Ahmadi-Nejad's programs. After a lull in criticism during the Nowruz holiday and the British sailor crisis, the pace has increased as inflation rises and new sanctions loom ahead. The head of the Majles Research Center lambasted the government for sidelining experts and technocrats. Majles deputies are criticizing the government's inability to address poverty and unemployment. The Majles planning and budget committee cautions the government against borrowing from the foreign exchange account to finance current expenditures. Ex-presidential candidate and advisor to the Supreme Leader Ali Akbar Nateq-Nuri called on the president to listen to economic advisors and make "prudent" policies, and former President Rafsanjani advocated for a more "balanced" economic approach. Although general analysis suggests that high oil prices will keep the economy afloat in spite of Ahmadi-Nejad's mismanagement, some contacts are increasingly doubtful that oil profits will offset the rapidly declining economic situation. End Summary.

Sidelining of experts

2.(U) "The ninth government does not pay sufficient attention to expert views and methods before taking decisions, and I warn against the low efficiency of the ninth government," said Majles deputy and head of the Majles Research Center Ahmad Tavakkoli, who ran against Ahmadi-Nejad in the last presidential election, at a conference April 25 on the prospects for Iran's 20-year plan. Advisor to the Supreme Leader Ali Akbar Nateq-Nuri publicly lamented "wasted" human resources and asserted that skilled ministerial officials are losing their jobs - due to their political affiliations -- to "less adept allies of those in power." "The continuation of this situation results in stagnation and a waste of human resources," Nateq-Nuri said in an interview published by the Iranian Students News Agency (ISNA) April 27.

3.(C) The comments by Tavakkoli and Nateq-Nuri are often echoed by IRPO contacts who claim that respected academics were forced into early retirement when Ahmadi-Nejad came to power and that skilled technocrats have frequently been sidelined to positions

of less influence or ousted from their government positions all together. One business contact alleged that many of these technocrats are relocating to Dubai. (Note. IRPO cannot confirm this allegation but will continue to track the diaspora. Endnote)

Poverty

4.(U) Majles social committee member Musa-Reza Servati said that welfare payments should increase by 15% to keep pace with inflation, "otherwise the country will face a rise in the ranks of the needy and an increase in social maladies this year." Mehr News claimed on April 28 that government assistance levels do not adequately address the needs of the poor, particularly as "soaring inflation rates lowers their standard of living every year." The article, without citing the source of its statistics, claimed that 12 million people in Iran live below the poverty line, constituting roughly 18.5% of the population. Another six million are reportedly "not supported by any foundation or organization and thus must fend for themselves in the face of overwhelming difficulties." (Note: Per the Ministry of Social Welfare, anyone with an income of less than roughly \$400/month lives below the poverty line and average government salaries are \$300/month. Endnote)

5.(C) Most contacts report prices are skyrocketing across the board and that wages are not keeping pace with inflation. One Dubai-based financial analyst said the value of her house in Tehran doubled in just one year. She noted that as prices rise, Iranians are forced to turn to inferior knock-offs, including counterfeit medical supplies. On the other hand, an economics professor from Shiraz University recently told IRPoff that concern over inflation is severely overblown in Iran, and that current rates are consistent with the high levels of inflation seen since the revolution. He claimed that the economic situation has not drastically changed but that expectations increased in response to Ahmadi-Nejad's campaign promise to bring oil wealth to people's tables. The professor is the sole defender of Iran's inflation rates that IRPoff has met in recent months. Another contact complained that Iran is turning into a welfare state, where increasingly people are opting not to work

RPO DUBAI 00000030 002.2 OF 003

if the available work is not in their field.

Foreign exchange account

6.(U) Majles Planning and Budget Committee member Ali Dirbaz told ISNA that "growth of liquidity and inflation is the outcome of the decisions of the past two years. To overcome this deficiency we must stop repeating what we have done. The current expenditures must not be financed by the foreign reserves."

7.(C) Business contacts and economists frequently complain to IRPoff of over-borrowing from the foreign exchange account (aka Oil Stabilization Fund). One economist noted that by purchasing rials from the Central Bank of Iran with the foreign exchange funds, Ahmadi-Nejad in effect added an additional 36 percent of cash into the market that previously did not exist. This cash, or liquidity, needs to go somewhere. First, said the economist, people bought up all the gold; once gold prices skyrocketed, people began investing in the real estate market. (Note: This is a single-source comment but from a historically credible source. Endnote)

Privatization

8.(U) Despite the Supreme Leader calls February 19 for speedier privatization (reftel), it appears Iran is headed in the opposite direction. Majles Research Center head Tavakkoli complained that the Iranian government has "chanted the slogan of privatization" the last 16 years, all the while slowly

increasing the number of state-run companies. Tavakkoli alleged that in 2004, 531 government companies were listed on the national budget, whereas that number now exceeds 2,500. Tavakkoli argues that if Iran is looking to model its economy after that of another country, it should look to China as "we must defend economic efficiency and increasing national wealth; and we must ensure social justices and the fair distribution of national wealth and national assets."

9.(C) IRPO contacts have reinforced this view. A political science professor recently claimed to IRPoffs that despite rhetoric about privatization, the public sector in Iran has actually grown from 60 to 75%. The Shiraz economics professor said Iranians have been hearing of privatization efforts for years and are doubtful such plans will be actualized. Others claim, however, that talk of pending privatization has caused business slowdowns as companies slotted for privatization feel themselves to be in a holding pattern. That said, many contacts put greater blame for slowdown in business and capital expenditure on political uncertainties as Iran's international relations deteriorate.

Way forward

10.(U) Speaking to economic students at the end of April, Expediency Council Chairman Rafsanjani implied that the Islamic Republic has not been able to implement its long-term economic policies due to the Iran-Iraq war that lasted throughout most of the 1980s. Since 1988, Iran focused on reconstruction of the country, he said. Now, in order to establish social welfare and increase employment opportunities, Iran should adopt a "balanced policy" to implement "incremental change" in Iran, opined Rafsanjani. In addition to a ditente policy in foreign relations, the components of this policy include empowering the private sector, balancing the foreign exchange rate, and balancing subsidies.

11.(C) Several reformist-leaning Iranians told IRPoff that although Rafsanjani would not normally be their "first choice" for president, his ideas are logical and preferable to the policies of the current administration. One complained that Ahmadi-Nejad does not understand economics and that his policies "don't make sense." To illustrate his point, he said Ahmadi-Nejad raised tariffs on mobile phones from 4 to 64 percent, despite the fact that Iran does not produce mobile phone sets locally and therefore there is no domestic product to protect. (Note: IRPoff was later told by another source that the tariff was put in place to assist a "connected" businessman who was having difficulty unloading mass quantities of phones he had already imported. Endnote) In contrast, one economist said, "Rafsanjani has power and money - now he is looking to create a legacy that will last beyond his lifetime. The other guys (including the Supreme Leader) are too busy managing the

RPO DUBAI 00000030 003.2 OF 003

details to stay in power instead of thinking about what's good for the Iranian people."

12.(C) Comment: The current government's economic policies have been under frequent attack, including the open letter to Ahmadi-Nejad in June 2006 in which 50 economists laid out their ten main "concerns," stating "the policies of your administration, if continued, can result in a still graver situation for the country's economy." However, it appears that such criticism is getting more frequent and is coming from more prominent sources. While current and possible future sanctions on Iran clearly have a chilling effect on the business climate, it is noteworthy that these Iranians put as much blame on internal economic mismanagement by the current government. Contacts previously said that as long as oil dollars are coming in, Iran's economy could float for years to come. However, IRPoff has noticed a new level of despair and hopelessness in Iranian contacts in the past month, with some saying oil profits may not be enough to off-set Iran's economic problems. Some Dubai-based Iranians claim that the economic situation is

driving out even staunch nationalists from Iran, primarily for Dubai. One Iranian business student - who is the son of a former high level official in Iran - first complained to IRPoff that Iranian-Americans and the media only present the negative side of Iran's economy. However, when asked to point out something positive, he told IRPoff he could do so in 2-3 years.
End Comment
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